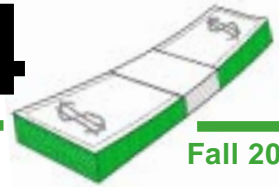


Open
Enrollment
News

Tax\$ave 2004



Fall 2003

Published Annually for New Jersey State Employees

Enroll in Tax\$ave and keep more of what you earn

The New Jersey State Employees Tax Savings Program (Tax\$ave) saves State employees tax money.

Tax\$ave allows eligible employees to set aside, through payroll deductions, before-tax dollars that will be used to pay for qualified medical, dental, and dependent care expenses.

Tax\$ave — a benefit program defined by Section 125 of the federal Internal Revenue Code — consists of three separate components: the *Premium Option Plan* (POP), and two Flexible Spending Accounts — the *Unreimbursed Medical Spending Account* and the *Dependent Care Spending Account*. An eligible employee may choose to participate in any or all of these plans. An eligible employee is any employee of the State, a state college, state university, or other state agency who is eligible to participate in the State Health Benefits Program (SHBP).

The Premium Option Plan (POP) is administered by the State and allows you to pay any of your SHBP medical and/or dental premiums with before-tax dollars. For State employees paying toward their medical benefits through premium sharing, the tax saving advantages of the POP are more valuable than ever!

Enrollment in the POP is automatic if you are making a premium contribution for dental and/or medical coverage. The result is that you will pay less in federal taxes.

If you choose not to take advantage of the tax savings available under the POP, you must obtain a *Declination of POP* form from your benefits administrator. For details on the POP see the *Premium Option Plan 2004* pamphlet that you received with your paycheck.

Direct deposit available for FSA payments

Horizon Healthcare now offers direct deposit of reimbursement payments from your Unreimbursed Medical Spending Account and Dependent Care Spending Account.

Call Horizon Healthcare at 1-800-224-4426 for more information or to obtain a direct deposit application form.

Flexible Spending Accounts (FSA) provide two more innovative ways for you to save tax dollars. Horizon Healthcare Insurance Agency, Inc. administers both plans.

1) The Unreimbursed Medical Spending Account allows you to save taxes on out-of-pocket medical and dental expenses. Basically, any medical or dental expense that would be deductible on your income tax is reimbursable under this FSA. IRS Publication 502, *Medical and Dental Expenses*, provides a complete list of the services eligible for reimbursement.

2) The Dependent Care Spending Account allows you to set aside up to \$5,000 of your before-tax salary each calendar year to pay for qualified dependent care expenses. IRS Publication 503, *Child and Dependent Care Expenses*, provides a complete list of the services available for reimbursement.

For further information on Tax\$ave's Flexible Spending Accounts, see the Tax\$ave pamphlet, *Savings You Can Bank On*, that you received with your paycheck, or visit Horizon Healthcare's Web site for information, forms, and interactive calculation tools. Horizon Healthcare can be reached through the Division of Pensions and Benefits' Tax\$ave page at: www.state.nj.us/treasury/pensions/taxsave.htm

Tax\$ave Open Enrollment

The Tax\$ave 2004 Open Enrollment period begins on **October 1** and ends on **October 31, 2003**. Tax\$ave Open Enrollment is your opportunity to save tax dollars in the 2004 tax year with the **POP** and the **Flexible Spending Accounts**.

Enrollment in the POP component of Tax\$ave is automatic every year. *The Flexible Spending Accounts require active enrollment each year.* There are a variety of easy ways to enroll.

— You may enroll over the phone by calling Horizon Healthcare's automated voice response system at 1-800-224-4426 (October 1 — October 31, 2003); or

— You may enroll over the Internet during the same time period. Go to the Tax\$ave page at: www.state.nj.us/treasury/pensions/taxsave.htm and follow the link to the Horizon Healthcare website; or

— You can enroll by obtaining an enrollment kit with the necessary FSA election forms from your benefits administrator. These forms must be postmarked by October 31, 2003, in order to enroll for the 2004 plan year.

NEW! **Benny**[™] Card for Medical FSA expenses

This year, we have made your Tax\$ave **Unreimbursed Medical Spending Account** (UMSA) easier to use by adding a new feature. Say "hello" to **Benny**[™]... Your Card for Better Benefits! The **Benny** Card is a special MasterCard® that draws on the value of your annual UMSA election amount. Each time you incur a qualified health care expense at a health care provider or business that accepts MasterCard, you simply use **Benny** and the amount of your qualified purchases will be deducted from your UMSA automatically. Using **Benny** is simple because the funds are immediately transferred from your UMSA at the time you incur the expense and it improves your cash now because you don't have to lay out cash at the time of purchase.

You can use **Benny** for qualifying UMSA expenses, such as covered prescription copayments, health plan deductibles, orthodontics, doctor and emergency room copays, eyeglasses, Lasik surgery, and uncovered dentist or other provider fees. (You can't use **Benny** at non-health related MasterCard locations, such as restaurants, gas stations, and bookstores.)

Watch for more information about **Benny when you sign up for an Unreimbursed Medical Spending Account during Tax\$ave 2004.**

Dependent Care Spending Account vs. Child and Dependent Care Tax Credit

The **Dependent Care Spending Account** (DCSA) is generally more advantageous from a tax perspective than the Child and Dependent Care Tax Credit on your federal income tax return. For example, a married couple with a combined adjusted gross income of \$80,000 that incurs \$5,000 in dependent care expenses could save up to \$1,632 in federal income and Social Security taxes by participating in the DCSA (vs. \$600 for one dependent child or \$1,200 for two or more dependent children from the tax credit).

Orthodontic care and Medical Spending Accounts

Orthodontic care can sometimes require years of treatment. While these services are eligible for reimbursement from your **Unreimbursed Medical Spending Account**, IRS rules generally require that orthodontia claims (or other long term services) be for treatment occurring within the tax year for which you are filing. However, if you pay your orthodontist in a single lump sum at the outset of treatment, Tax\$ave permits you to be reimbursed in a single installment. Payments to your orthodontist that are made over time continue to be reimbursed in installments.

Pennsylvania State non-taxability

If you live in **Pennsylvania**, contributions to your **Unreimbursed Medical Spending Account*** are exempt from Pennsylvania state income tax. This means that you save money on both your federal **and** Pennsylvania state taxes. It's one more reason for Pennsylvania residents to sign up for an Unreimbursed Medical Spending Account during the Tax\$ave Open Enrollment.

*Dependent Care Spending Accounts are subject to Pennsylvania state income tax but remain exempt from federal tax.

FSAs have minimal impact on Social Security

Since payments to the **Flexible Spending Accounts** and benefits premium payments under **POP** are not subject to Social Security deductions, some members have opted not to participate in Tax\$ave because it would reduce their Social Security benefit. This may not be a good financial decision.

For example, consider an employee who retired in 1998 at age 65 and whose wages had been at the maximum wages subject to Social Security deductions. Upon retirement, this individual's monthly Social Security allowance was \$1,343.

If the same person had been contributing \$2,000 a year to a Flexible Spending Account for the last 10 years of employment, the tax savings would amount to \$460 – \$900 per year (depending on the person's tax bracket).

By contrast, the subsequent reduction in Social Security wages would have produced a monthly Social Security allowance of \$1,335, a difference of \$8 per month (\$96 per year).

Compare the two, and you can decide for yourself if this is reason enough to choose against saving on taxes now!

NJ Division of Pensions and Benefits

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Tax\$ave Open Enrollment News is published annually by the New Jersey Division of Pensions and Benefits to provide news and information to State employees regarding the New Jersey State Employees Tax Savings Program (Tax\$ave). The articles in this publication are for information purposes only and, while every attempt at accuracy is made, it cannot be guaranteed.

Access Tax\$ave forms and interactive calculation tools by visiting Horizon through a link at: www.state.nj.us/treasury/pensions/taxsave.htm